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CIA sees global oil output peaking

CIA sees global production declining through 1980s. Persian Gulf nations will stay level, other OPEC output to fall, OECD production to decline after mid-1980s, and Communist countries to switch to net oil importers.

GLOBAL oil production is peaking and will decline throughout the 1980s, says Adm. Stansfield Turner, director of the U.S. Central Intelligence Agency.

Turner told the Senate energy committee last week that, at best, output in the Persian Gulf countries will remain level, output in other Organization of Petroleum Exporting Countries will fall, oil flow from the Organization of Economic Cooperation and Development countries will drop after the mid-1980s, and Communist countries will shift to become net oil importers.

"Simply that the expected decline in oil production is the result of a rapid exhaustion in accessible deposits of conventional crude oil," Turner said.

Grim outlook The CIA director said that during the 1970s total new oil discoveries probably replaced no more than half of production—a trend he says is irreversible (Fig. 1).

"There is good reason to believe that the most prolific oil producing areas have been found and drilled. Even with modern technology, the chance of finding new giant fields is diminishing.

"Areas with the highest potential include the continental shelf of Argentina, the South China Sea, and some Arctic regions, partly in the U.S.S.R.

"Other areas thought to have good oil potential—such as offshore Burma and eastern Peru—have so far yielded disappointing results. Exploration efforts in the South China Sea and in the Gulf of Thailand are being hampered by conflicting territorial claims."

Turner said among the OPEC countries, inadequate reserves will cause production declines during the 1980s in Venezuela, Nigeria, Algeria, Ecuador, and Gabon—barring an unforeseen turnaround in exploration results.

He said the decline in Venezuela could be slowed by development of heavy oil deposits and new offshore oil fields.

"Oil output will stagnate in Canada. The projected yield from tar sands will only offset declining production of conventional crude," Turner said.

"Some of Canada's northern areas are geologically promising, but the odds of finding gas are greater than finding oil. In any event, northern oil as well as recently discovered oil off the Newfoundland coast probably

couldn't be delivered on a large scale during the 1980s."

He said U.S. production will continue to decline in spite of heavy drilling activity, noting that most U.S. oil firms have reduced their projections of domestic output for the 1980s.

He said U.S.S.R. production will peak this year and then decline steadily throughout the decade.

With western technological assistance, he said, China's output could be increased. But most of the increase would be absorbed domestically.

Large reserves. Turner said major countries with oil reserves sufficient to support a boost in global oil production are Saudi Arabia, Kuwait, Iran, Iraq, the United Arab Emirates, Norway, the U.K., and Mexico.

Saudi Arabia may increase its productive capacity 1 million b/d above its present 9.5-million-b/d level, "but we expect by this summer that the Saudis may reduce production to 8.5

million b/d or less."

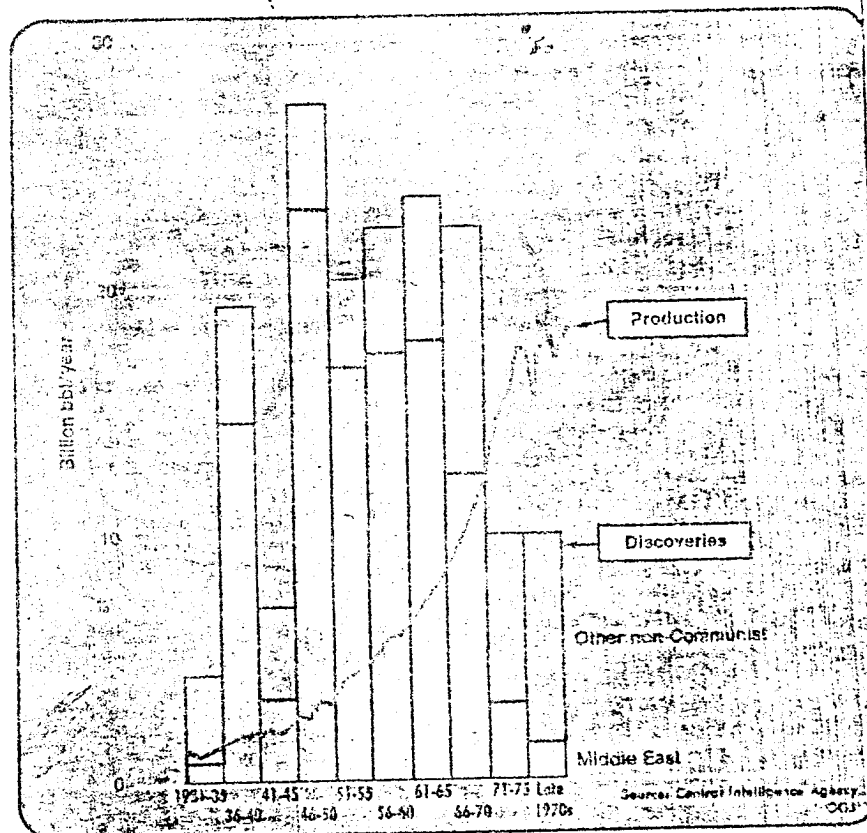
Kuwait could maintain output at its current capacity of 2.7 million b/d for at least 50 years. But it has cut output to 1.5 million b/d because of an inability to use its oil revenue productively.

Iraq wants to raise productive capacity in order to increase its influence in OPEC and Middle East circles. Production, however, probably will be held to the level needed to meet development needs—about 3-3.5 million b/d or less—as oil prices rise.

Iran has opted for slow economic development which requires production of only 2.5-3 million b/d. But that level will require foreign assistance and large investments to maintain.

Turner said output in the U.A.E., Qatar, and the Neutral Zone is likely to decline slowly during the 1980s. Only Abu Dhabi could boost productive capacity. But it has water encroachment problems.

Non-Communist oil discoveries, production



Continued

Resources in the North Sea could support increases in production but for British and Norwegian policies of long-term conservation.

Mexico will provide the only major production increase during the 1980s, Turner said.

Producing 2 million b/d now, the country is rapidly increasing production to meet revenue needs.

Although a level of 4 million b/d or more probably could be achieved and sustained later in this decade, economic bottlenecks and inflation worries may make it undesirable for Mexico to go that high.

Soviet outlook. Turner pointed out that the OECD projection is complicated by the outlook for Soviet oil.

"The U.S.S.R. is the world's leading oil producer with an output of 11.7 million b/d in 1979. Production growth, however, has slowed markedly in recent years," he said.

"Output probably will peak this year at less than 12 million b/d and begin falling next year."

That will cause the Communist countries as a group to shift from net exports of 800,000 b/d in 1979 to net imports of at least 1 million b/d in 1985 (Fig. 2).

Oil production is declining in all of the Soviet Union's major oil producing regions except western Siberia, and further gains even there are uncertain now that the supergiant Samotlor oil field has reached a production plateau.

Samotlor, which has accounted for the bulk of production growth in recent years, is likely to begin to slump in 1981 and then fall rapidly, Turner said.

At the same time, the current decline in older, major producing regions probably will accelerate. And by 1985 Soviet oil output will be down to 10 million b/d or less.

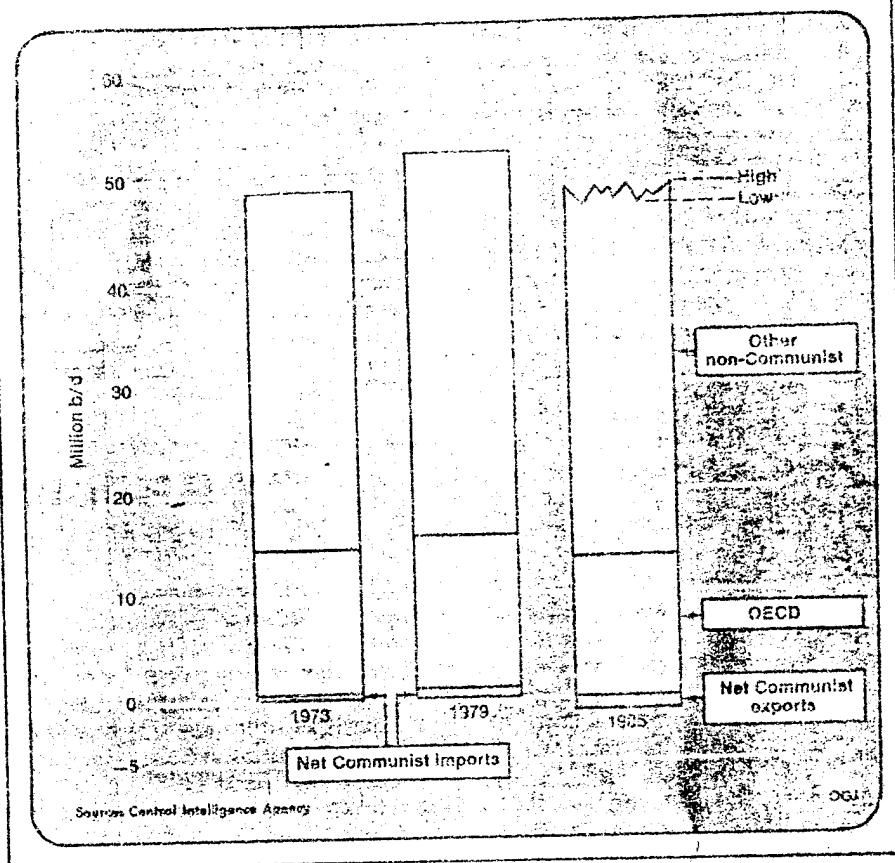
"The 10-million-b/d figure assumes that exploration is relatively successful, development drilling goes well, and the Soviets can acquire equipment and technology, mainly from the West," Turner said.

In the long run, Soviet production depends on discovery and development of oil fields in new areas—mainly the Barents, Kara, and Caspian seas, eastern Siberia, and the deep onshore Caspian depression.

He said such discoveries wouldn't buoy production until the late 1980s or early 1990s. And much of the technology needed to operate in the Barents and Kara seas isn't available yet.

Turner said Soviet coal production is stagnant, natural gas production is limited by pipeline capacity, and con-

Outlook for non-Communist oil supply



servation savings will be small.

He said cutbacks in energy supplies in Communist nations will hurt living standards and place a strain on Communist leaders.

"Given the advanced age of Soviet leaders, the oil crunch is likely to occur during a large-scale changeover in the Soviet Politburo.

"Moscow no doubt will make an intense effort to obtain oil at concessionary prices from the oil exporting countries through barter deals, sometimes involving arms sales. More forceful action—ranging from covert subversion to intimidation or, in the extreme, military action—cannot be ruled out."

What's ahead. The CIA director said the combined western and Soviet oil outlooks set the stage for head-on competition for Middle East oil.

"Moscow already is strongly making the point that Middle East oil isn't the exclusive preserve of the West," he said.

Competition for Mideast oil will strain relations between industrialized nations, he predicted.

"Western energy cooperation has worked fairly well so far. But current arrangements to share available oil in the event of an emergency affecting one or more members haven't been

put to the test.

The going will get tougher as the decade progresses and the International Energy Agency oil import targets adopted for 1985 have to be substantially scaled down.

"The peaking of global oil output and the competition for available supplies by the West, the less developed countries, and soon the Eastern Communist bloc, all adds up to less Middle East oil for the U.S.

"Politically, the cardinal issue is how vicious the struggle for energy supplies will become. This competition will create a severe test of the cohesiveness of the eastern and western alliances," he said.

Jackson's warning. Sen. Henry Jackson (D-Wash.), committee chairman, proclaimed that "an oil supply interruption of a major magnitude is a virtual certainty some time within the next decade" because of the volatile political situation in the Middle East.

Referring to closed-door hearings held earlier by the committee, he said, "The oil fields in the Persian Gulf countries, which produce one-third of the world's oil, are virtually defenseless against terrorist attack or sabotage.

"For instance, in Saudi Arabia, Arabian American Oil Co. officials

concede that three well-armed men could cripple the Saudi export operation."

Jackson called for the U.S. to establish "a strong, credible military posture" in the region and "end its vacillating policies which have caused almost every nation in the region to question whether we truly understand our vital interests there."

SPR, other issues. Questioned by senators, Turner explained why the Saudis oppose the Strategic Petroleum Reserve in the U.S.

"They don't see the logic in taking oil out of the ground in their country and putting it in the ground in our

country. They aren't anxious to push their production limit to do this," he said.

Turner also said another cutoff of oil imports by Iran wouldn't be too critical because present world productive capacity could fill the 1.5-million-b/d void.

Sen. Ted Stevens (R-Alaska) and Henry Bellmon (R-Okla.) tried to use the CIA outlook as an argument against the Carter administration's U.S. energy policies.

Stevens cited Alaska's vast petroleum potential and said, "We have had no new oil and gas leases issued in Alaska by this administration—

none.

"Why does the CIA downgrade the potential of the U.S. to produce our way out of this problem?" Stevens asked.

Turner replied that CIA didn't doubt the potential, only the industry's ability to bring on any onshore and offshore production in Alaska during the 1980s.

Bellmon called the CIA's negative attitude toward U.S. production potential "an enormous disservice."

"We seem to be basing our domestic energy policy on a mistaken theory that we don't have any resources," he said.